

TEACHERS' RETIREMENT BOARD  
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Adoption of Lump Sum Death Benefit  
Rate for 2002-03

ITEM NUMBER: 5

ATTACHMENT(S): 2

ACTION: X

MEETING DATE: June 6, 2002

INFORMATION:       

PRESENTER: Rick Reed

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**SUMMARY**

A lump sum death payment is payable to the beneficiary upon the death of an active or retired Defined Benefit (DB) Program member under certain conditions specified in statute. Section 23801 of the Education Code provides for payment of a \$5,000 death payment to the beneficiary of an eligible deceased member who had coverage under the Family Allowance program (Coverage A) of the DB Program. Section 23851 provides for payment of a \$20,000 death payment to the beneficiary of an eligible deceased member who had coverage under the Survivor Benefit program (Coverage B) of the DB Program. Finally, Section 23880 provides for payment of a \$5,000 death payment to the beneficiary of an eligible deceased retired member. Each of these three sections permits the Teachers' Retirement Board (Board) to "adjust the death payment amount following each actuarial valuation based on changes in the All Urban California Consumer Price Index" (CCPI). The death benefit for active Coverage A members and retired members is \$6,010 in 2001-02, and the current death benefit for active Coverage B members is \$24,040.

The initial death payment amounts were established by legislation in 1992, and were adjusted to the current amounts after the June 30, 2000 valuation. Increasing the death benefit payments to reflect changes in the CCPI between December 2000 and December 2001 would increase the death benefit by about 2.55 percent. The CalSTRS' consulting actuary determined in the attached report that, based on the June 30, 2001 actuarial valuation, adjusting the current death benefit payment amounts to reflect inflation would have an immaterial impact on the funding of the program, equal to an increase in the actuarial obligation of \$10 million.

Therefore, the consulting actuary recommends the Board consider adopting an increase in the death payment amounts that reflects the change in the All Urban CCPI since the last adjustment, as follows:

	2001-02 (Current)	2002-03 (Proposed)
Retired or in Coverage A	\$6,010	\$6,163
Coverage B	\$24,040	\$24,652

To be consistent with the implementation of other rates and amounts subject to adjustment by the Board, it is recommended these amounts be implemented effective July 1, 2002.

**RECOMMENDATION**

Staff recommends that the Benefits and Services Committee recommend to the Board that it adopt the adjusted lump sum death payment amounts, as recommended by the consulting actuary, to be effective July 1, 2002.



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May 6, 2002

Mr. Rick Reed, Actuary  
Office of the Actuary  
State Teachers' Retirement System  
P.O. Box 15275  
Sacramento, California 95851-0275

**RE: LUMP SUM DEATH BENEFIT LEVELS**

Dear Rick:

Under certain conditions, lump sum death benefits are payable to the beneficiaries of CalSTRS members. The lump sum death benefit levels were established in 1992 without an automatic cost-of-living adjustment. The benefit structure was specifically designed to address the Older Workers' Benefit Protection Act and to be "cost neutral" between Coverage A and Coverage B. An automatic escalation of the lump sum payments was not possible because of the actuarial cost of such a provision. Therefore, the ad hoc approach was developed so that an increase could be granted after each actuarial valuation at the discretion of the Retirement Board.

Education Code sections 23801(c), 23851(c), and 23880(b) provide that the Retirement Board "may adjust the death payment amount following each actuarial valuation based on changes in the All Urban California Consumer Price Index." Now that we have completed the 2001 Actuarial Valuation of the Defined Benefit Program, it is appropriate for the Retirement Board to consider such an adjustment to these lump sum death benefits.

Since the actuarial valuations are performed as of June 30, but are typically not completed until the following calendar year, a measuring period for inflation has been used that ends in December of the valuation year, rather than as of the valuation date.

The recommended amounts were developed from the following formula:

$$\text{July, 2002 Amount} = \$5,000 \times \frac{\text{December 2001 CCPI}}{\text{October 1992 CCPI}} = \$5,000 \times \frac{181.8}{147.5} = \$6,163$$

By convention, we have rounded the result to a whole dollar amount and set the Coverage B level to four times the Coverage A level.

The death benefit levels were changed by statute effective on October 16, 1992, and to the levels shown in the following table by Retirement Board actions after each



subsequent actuarial valuation. We also show a recommended level of benefits as of July of 2002.

Effective Date	Measurement Date	California CPI	Lump Sum Death Benefit Amounts		
			Retired Members	Active Members	
				Coverage A	Coverage B
<b><u>Previously Adopted:</u></b>					
October, 1992	October, 1992	147.5	\$ 5,000	\$ 5,000	\$ 20,000
July, 1994	December, 1993	150.7	5,110	5,110	20,440
July, 1996	December, 1995	154.2	5,227	5,227	20,908
July, 1998	December, 1997	162.0	5,493	5,493	21,974
July, 1999	December, 1998	165.1	5,598	5,598	22,394
July, 2000	December, 1999	170.0	5,763	5,763	23,052
July, 2001	December, 2000	177.3	6,010	6,010	24,040
<b><u>Recommended for Adoption:</u></b>					
July, 2002	December, 2001	181.8	<b>\$ 6,163</b>	<b>\$ 6,163</b>	<b>\$ 24,652</b>

Since the law states the Board "may" adjust the amounts, the drafters of the legislation clearly did not intend the adjustment to be automatic. By implication, the adjustment would be granted by the Retirement Board only if the System could afford to do so.

Based on the results of the 2001 Actuarial Valuation, if the recommendation is adopted we estimate an increase in the Actuarial Obligation of about \$10 million, and an increase in the Normal Cost of about \$1 million per year. The adoption of this increase would not be significant enough to change the 29-year amortization period.

(\$millions)	Before Adjustment	After Adjustment
<b>Funded Status</b>		
Actuarial Obligation	\$109,881	\$109,891
Actuarial Value of Asset	<u>107,654</u>	<u>107,654</u>
(Actuarial Surplus)	\$ 2,227	\$ 2,237
<b>Normal Cost</b>	\$ 3,396	\$ 3,397
<b>30-Year Funding Rate</b>	17.082%	17.087%
Increase in Funding Rate		0.005%



Mr. Rick Reed  
May 6, 2002  
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The adoption of the recommended adjustment to the lump sum death benefit levels will have a minor impact on the funding of the Defined Benefit Program. Therefore, we recommend that the Board consider the adoption of an increase in the lump sum death benefits as described in this letter pursuant to the authority stated in Education Code sections 23801(c), 23851(c), and 23880(b).

If you have any questions, please let me know.

Sincerely,

Mark O. Johnson, F.S.A.  
Consulting Actuary

MOJ:j str:l:020501

cc: Ed Derman  
John Presley  
Susan O'Farrell

PROPOSED  
RESOLUTION  
OF THE  
TEACHERS' RETIREMENT BOARD  
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Adoption of Lump Sum Death Benefits  
for 2002-03 Fiscal Year

RESOLUTION NO. \_\_\_\_\_

WHEREAS, the Teachers' Retirement Law permits the Teachers' Retirement Board to adjust the death payment amounts pursuant to Sections 23801, 23851 and 23880 of the Education Code following each actuarial valuation, based upon changes in the All Urban California Consumer Price Index, and

WHEREAS, the Consulting Actuary has completed an Actuarial Valuation of the Defined Benefit Program as of June 30, 2001 and

WHEREAS, the Consulting Actuary has further determined that an inflationary adjustment to the death payment amounts at this time would have an immaterial impact on the funding of the Defined Benefit Program; therefore, be it

RESOLVED, that the Benefits and Services Committee recommend to the Teachers' Retirement Board that, effective July 1, 2002, the lump sum death payment payable pursuant to Section 23801 of the Education Code on account of the death of an eligible member under Coverage A, be increased to \$6,163; that the death payment payable pursuant to Section 23851 on account of the death of an eligible member under Coverage B, be increased to \$24,652; and that the death payment payable pursuant to Section 23880 on account of the death of an eligible retired member, be increased to \$6,163.

Adopted by:  
Benefits and Services Committee

Ratified by:

Teachers' Retirement Board  
on June 6, 2002

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JACK EHNES  
Chief Executive Officer